

Message Text

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PAGE 01 LONDON 10727 071610Z
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 EA-06 IO-06 FRB-01 CEA-01
NSCE-00 SSO-00 CIAE-00 EB-04 INR-05 INRE-00 OMB-01
SP-02 PA-01 L-01 NSAE-00 /051 W
-----047529 071633Z /47

O R 071601Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 7888
TREASURY DEPT WASHDC IMMEDIATE
INFO ALL EC CAPITALS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION GENEVA

C O N F I D E N T I A L LONDON 10727

LIMDIS

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

PASS FEDERAL RESERVE BOARD, COUNCIL OF ECONOMIC ADVISORS:
PASS WHITE HOUSE FOR HENRY OWEN

E.O. 11652: XGDS-1
TAGS: EFIN, UK, PINT, ECON
SUBJECT: CALLAGHAN ATTITUDE AT BREMEN SUMMIT

REF: LONDON 10690

1. ACCORDING TO TOM MCNALLY, CALLAGHAN'S POLITICAL
ADVISOR, THE GUARDIAN ARTICLE BY PETER JENKINS (PARA 1 OF
REFTEL) IS AN ACCURATE ACCOUNT OF THE PRIME MINISTER'S
FEELINGS. OUR SOURCE DOES NOT THINK CALLAGHAN'S ATTITUDE
WILL COME AS A SURPRISE TO THE GERMANS. HE ALSO
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BELIEVES THAT THE JENKINS ARTICLE WAS BASED ON AN INTER-
VIEW WITH CALLAGHAN HIMSELF.

2. COMMENT: IT WOULD APPEAR THAT BONN, NOT BREMEN, IS
THE IMPORTANT SUMMIT. CALLAGHAN, THOUGH HE IS WIDELY
REGARDED AS HAVING A SOFT SPOT IN HIS HEART FOR FIXED OR
HIGHLY STABLE EXCHANGE RATES, IS PROBABLY AWARE OF SOME

OF THE COSTS OF SUCH A SYSTEM, AND MAY NOT WISH, BEFORE
THE BONN SUMMIT, TO GIVE UP BARGAINING LEVERAGE IN HIS
EFFORT TO INDUCE THE GERMANS TO REFLATE. TO THIS
EXTENT, HIS BREMEN POSITION COULD BE A TACTICAL ONE.
(THERE MAY ALSO BE A GENUINE ELEMENT OF DISGRUNTLED
SURPRISE AT WHAT SCHMIDT AND GISCARD HAVE BEEN UP TO--
ALTHOUGH THIS IS A MORE UNCERTAIN OBSERVATION.) WHETHER
THE BONN SUMMIT ITSELF WILL PRODUCE SUFFICIENT COMPENSA-
TION IN TERMS OF GERMAN STIMULATORY ACTION TO TRIGGER
BRITISH ACQUIESCENCE TO SCHMIDT'S CURRENCY STABILIZATION
SCHEME AT A DEEPER LEVEL THAN ANODYNE DIPLOMATIC
VERBIAGE' PRESUMABLY REMAINS TO BE SEEN.

BREWSTER

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NNN

Message Attributes

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